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Illinois Commerce Commission
On Its Own Motion

Response to Governor's Sustainable
Energy Plan for the State of Illinois

05-0437

COMPLIANCE FILING of Mt. Carmel Public Utility Co.

On February 11, 2005, the Governor of the State of Illinois sent to the Illinois Commerce Commission ("Commission") a proposal for a Sustainable Energy Plan for Illinois.

In response to this plan, the Commission commenced the Sustainable Energy Initiative. This included, among other things, workshops intended to develop plans consistent with the Governor's proposal.

As a consequence of the Commission's initiative, the Staff of the Energy Division of the Commission produced a Staff Report dated July 7, 2005 addressing the various issues surrounding the implementation of renewable energy, demand response and energy efficiency programs in a fashion contemplated by the Governor's proposal. Staff's Report supported many of the features of the Governor's Proposal but suggested, among other things, differences in timing related to adoption of recommended standards and initiatives. Staff's Report was adopted by the Commission in its Resolution dated July 13, 2005.

A subsequent Resolution of the Commission, dated July 19, 2005, documented various dates and recommendations included in the Staff Report. A provision of that second Resolution was that electric public utilities and alternative retail electric suppliers participating in the Sustainable Energy Plan file "appropriate documentation to implement the plan within thirty (30) days" of the date of the Commission's second Resolution.

This filing by Mt. Carmel Public Utility Co. ("Mt. Carmel") is being made in compliance with the second Resolution adopted by the Commission in Docket No. 05-0437.

The Commission has adopted the Governor's Sustainable Energy Initiative, as adjusted by the Staff Report previously mentioned. The Staff Report recommends that a policy of voluntary participation by electric utilities and certified alternative retail electric providers be adopted. Mt. Carmel agrees with

such a strategy and feels that it provides for the greatest flexibility in that it allows the process to be adapted to the significant differences in structure and situation existing among the various suppliers in Illinois, whether they are a utility or ARES.

Mt. Carmel Public Utility Co. is engaged in the sale of electric energy at retail to end-use consumers and at wholesale to a municipally owned utility. Mt. Carmel provides for these sales through purchases made at wholesale, in a competitive market structure, through a competitive bidding process. Mt. Carmel has none of its own generation.

Through many years of participating in the competitive market for wholesale generation, Mt. Carmel has found that firm, full requirements contracts provide its customers with the best combination of service and cost effectiveness. A portfolio, or mix of resources has not been cost effective because of Mt. Carmel's small size. "The Market" generally trades in increments of 50 MW, and Mt. Carmel falls below this threshold. Mt. Carmel's size and structural characteristics cause it to physically resemble a municipal system or distribution cooperative more than an investor owned utility. Mt. Carmel has always provided its ratepayers with a reliable power supply that is not only low cost, but also stable in cost. Long-term competitive contracts achieve that goal.

Therefore, assuming first that the Commission agrees that a standard portfolio approach is not suited to Mt. Carmel, it is the company's intent to try to participate in the Sustainable Energy Initiative in some fashion.

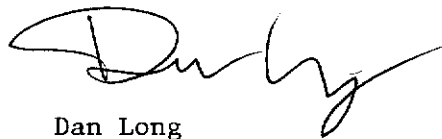
In attempting to establish the best way for Mt. Carmel to viably participate, the Staff Report was used as a reference. Mt. Carmel proposes that it be allowed to continue to pursue power supply contracts as it currently does. Mt. Carmel would now propose to modify its process to allow for a "weighting effect" or "allowance", when considering competitive offers. This weighting effect will allow Mt. Carmel to recognize and attempt to implement the goals outlined in the Staff Report. These goals reflect the inclusion of various types of renewable resources, and their costs, balanced by a reasonable set of assumptions as to how costs would be allowed to increase in order to conservatively achieve these goals. Mt. Carmel intends to consider offers from all manner of supplier as it does now, but would structure a weighting system to provide deference to those suppliers whose portfolios include renewable resources. Mt. Carmel proposes to give weight to such supplier's offers within the limits of a rate impact test similar to that set forth in the Staff Report. The Staff Report establishes proportions of renewable resources by year. The rate impact test proffered by Staff is to "guard against participating utilities placing excessive reliance on resources that are uncompetitive at current prices."

Mt. Carmel typically enters into multiple year contracts as a mechanism for achieving low cost as well as price stability. The Company will develop a set of

cost weighting parameters that utilize the cost limits set forth by Staff, but blended over a contract term of more than a year in length. This process will be documented by the Company for purposes of informational review by the Staff and the Commission.

Mt. Carmel hopes the Commission will find the Company's proposal to be reasonable. Mt. Carmel welcomes the chance to participate in the initiative commenced by the Commission.

Filed on Behalf of Mt. Carmel Public
Utility Co. This 17th Day of August,
2005:

A handwritten signature in black ink, appearing to read 'Dan Long', with a stylized flourish at the end.

Dan Long
For Mt. Carmel